

The Cost of Movie Piracy



An analysis prepared by LEK
for the Motion Picture
Association



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**MPA Members: Buena Vista Pictures Distribution; Metro-Goldwyn-Mayer Studios Inc.; Paramount Pictures; Sony Pictures Entertainment Inc.; Twentieth Century Fox Film Corporation; Universal City Studios, LLP; and Warner Bros. Entertainment Inc.*



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Overview

- Piracy is the biggest threat to the U.S. motion picture industry.
- In 2004, the MPA commissioned a study to provide an accurate and detailed assessment of the film industry's worldwide losses to piracy and the demographic profile of those engaging in piracy.
- The survey results are the most comprehensive picture of film piracy to date, capturing
 - (a) losses due to both internet and hard goods piracy,
 - (b) the cost of piracy to domestic and worldwide industries, and
 - (c) the profile of the typical pirate in various markets.



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Major Findings

- The major U.S motion picture studios lost \$6.1 billion in 2005 to piracy worldwide.
- 80 percent of those losses resulted from piracy overseas, 20 percent from piracy in the U.S.
- 62 percent of the \$6.1 billion loss result from piracy of hard goods such as DVDs, 38 percent from internet piracy.
- Piracy rates* are highest in China (90 percent), Russia (79 percent) and Thailand (79 percent).
- The worldwide motion picture industry, including foreign and domestic producers, distributors, theaters, video stores and pay-per-view operators, lost \$18.2 billion in 2005 as a result of piracy.
- The typical pirate is age 16-24 and male.



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** See page 6 for definition of piracy rates.*



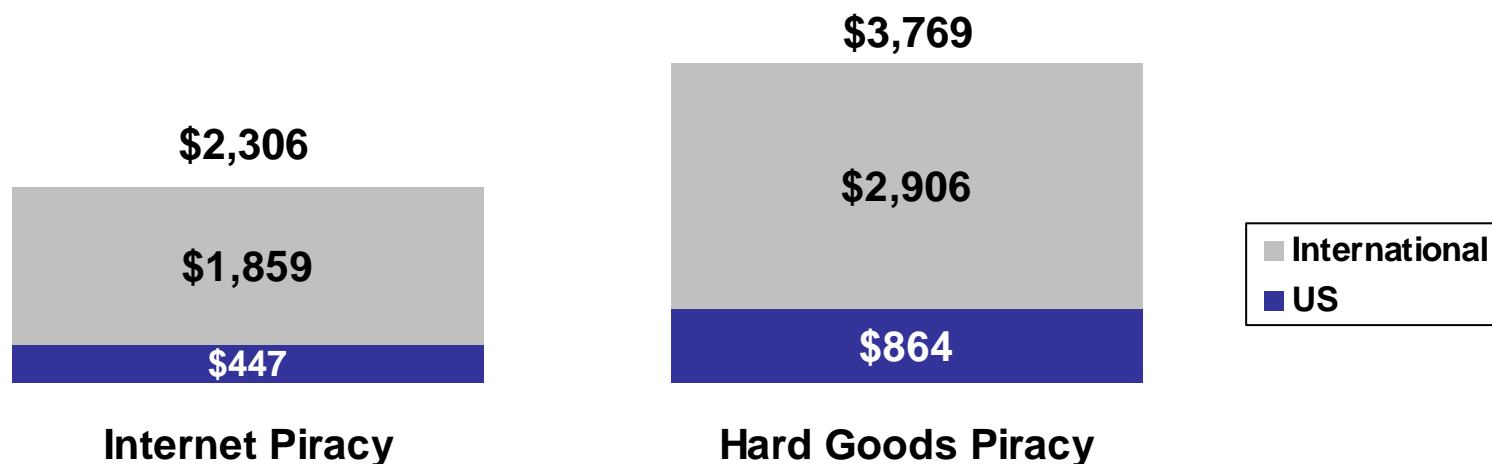
Losses to MPA Member Companies

The major U.S. motion picture studios lost **\$6.1 billion** to piracy in 2005. **\$4.8 billion, or 80 percent**, resulted from piracy in other countries and **\$1.3 billion, or 20 percent**, resulted from losses in the U.S.

\$3.8 billion was lost to hard goods piracy, defined as obtaining movies by either purchasing or acquiring an illegally produced VHS/DVD/VCD through a commercial source, or making illegal copies for oneself or receiving from a personal source (friend or family) an illegal copy of a legitimate VHS/DVD/VCD.

\$2.3 billion was lost to internet piracy, defined as obtaining movies by either downloading them from the Internet without paying or acquiring hard copies of illegally downloaded movies from friends or family.

MPA Member Company Revenue Loss by Source of Piracy*



**All figures throughout shown in \$U.S. Millions*



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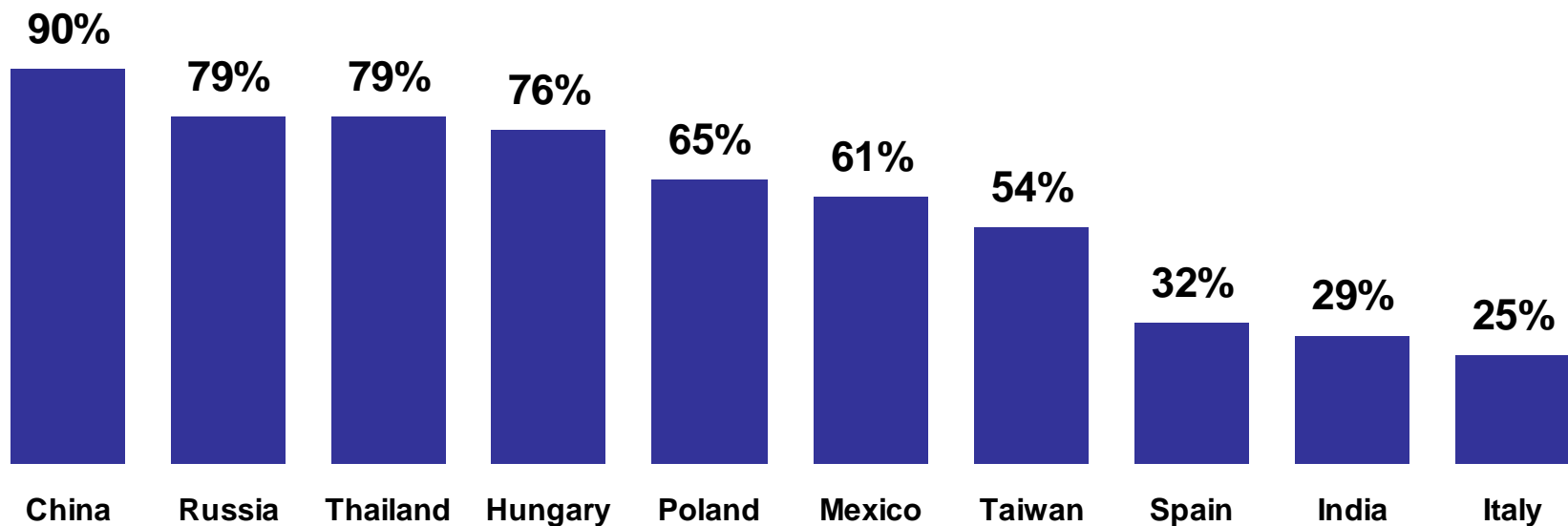
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Where is the piracy rate highest?

China, Russia and Hungary have the highest piracy rates*. By comparison, the piracy rate in the U.S. is 7 percent.

Percent of Potential Market Lost to Piracy *



**Piracy rates are derived from MPA member company legitimate revenue plus estimated revenue lost to piracy in each market. They are a static snapshot of the percentage of the potential market that is lost due to piracy. The piracy rate is based on existing market data and does not incorporate growth if piracy did not exist.*



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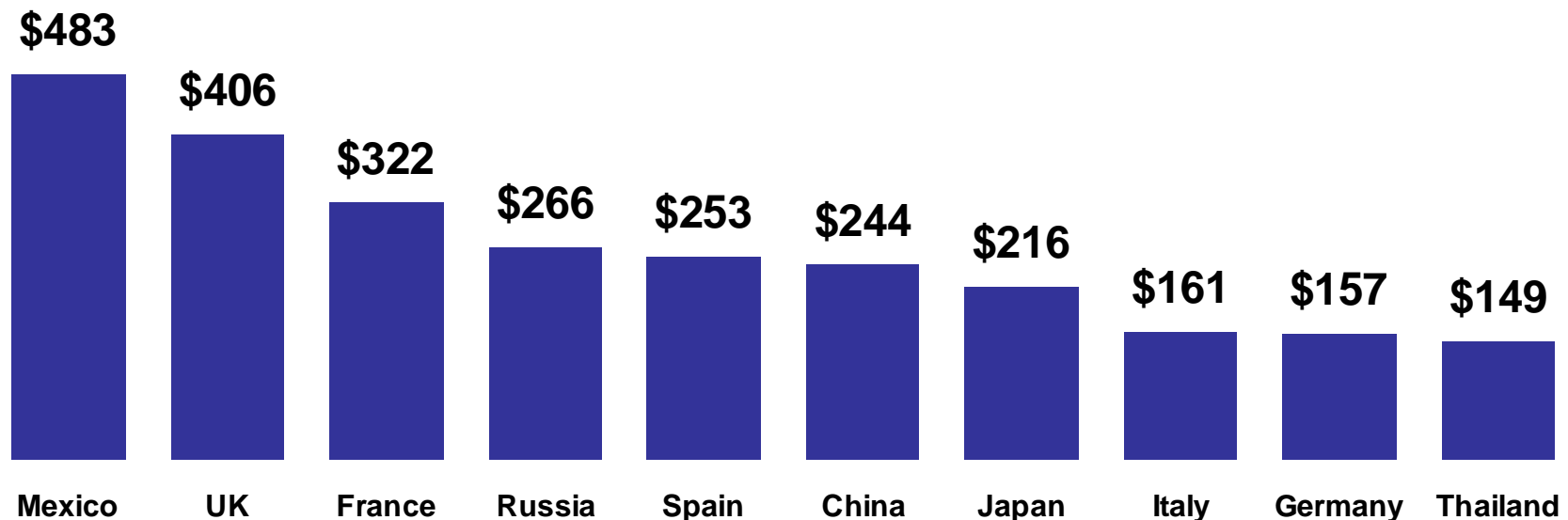
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Dollars lost in international markets

The markets where the dollars lost are highest are Mexico, UK and France. These mature markets return greater income to the U.S. motion picture industry than still developing markets such as China and Russia. Restricted access to the China market in particular limits potential legitimate revenues as well.

MPA Member Company Revenue Loss



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Piracy in China and Russia

- China and Russia have the highest piracy rates of all countries surveyed – 93 percent and 81 percent, respectively.
- The study indicates that the U.S. motion picture dollar losses in those markets are smaller than losses in Mexico and the UK. Why?
 - The U.S. motion picture industry's access to China is severely limited. China limits the number of foreign films allowed in theaters each year to 20, and imposes a number of restrictions on the distribution of home video products. By contrast, pirates operate unfettered and outside the law.
 - Mexico and the UK are free markets resulting in higher revenue for the U.S. motion picture industry.



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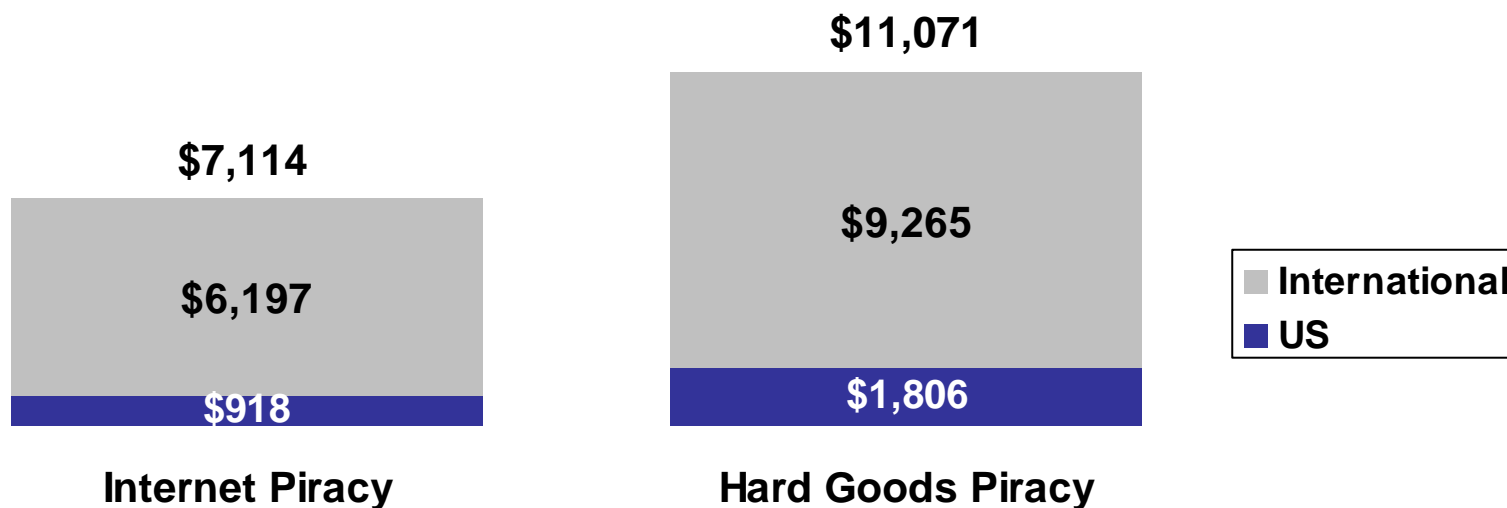
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Piracy's cost beyond the U.S. film industry

Piracy cost the worldwide motion picture industry an estimated **\$18.2 billion** in 2005. This includes producers, distributors, theaters, video stores and pay-per-view providers in the U.S. and around the world.

Worldwide Motion Picture Industry Losses



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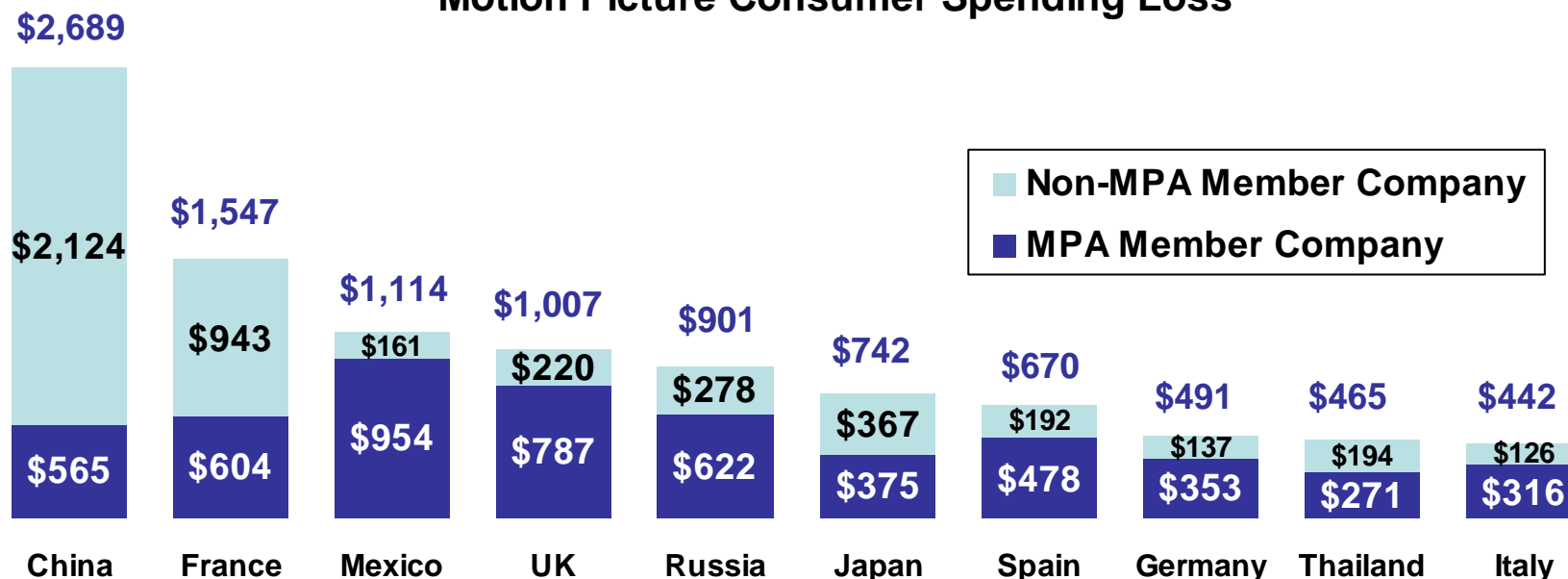


Dollar Losses – MPA and International

Piracy is not just detrimental to major U.S. studios. Local and non-MPAA member companies* in other countries (including producers, distributors, theaters, video stores and pay-per-view providers) suffer from piracy as well. Losses to other film industries were highest due to piracy in China, France and Japan.

Combined worldwide industry losses due to piracy are highest in China, France and Mexico.

Motion Picture Consumer Spending Loss



* Non-MPA member companies include local filmmakers in a given country. For example, the \$2.1 billion loss estimate in China for non-MPAA member companies includes losses to Chinese filmmakers in China as well as losses to French filmmakers in China.



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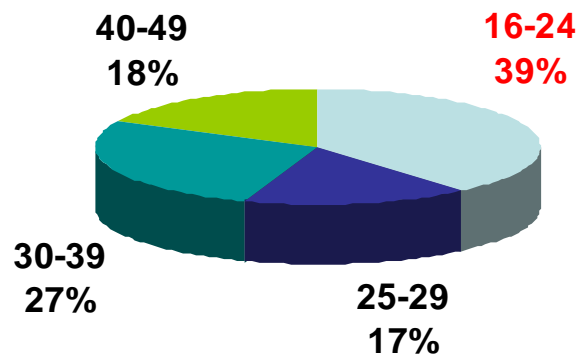
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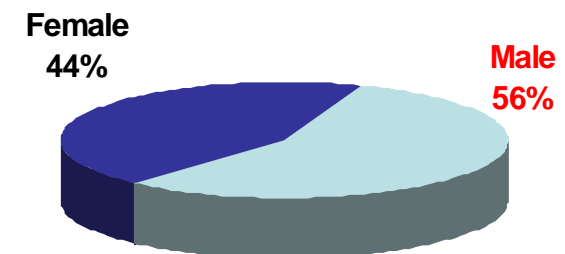
Pirate Profile

The typical worldwide pirate is 16-24 years old, male and lives in an urban area.

Age Groups



Gender



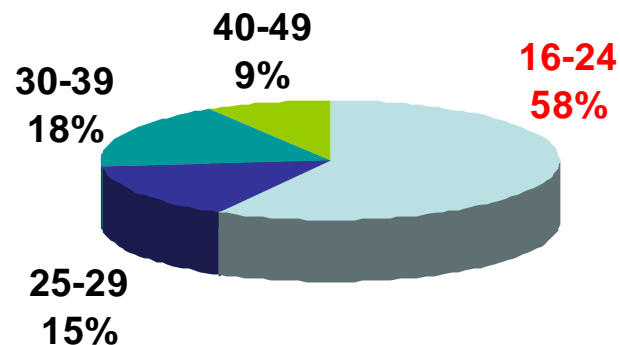
Geography



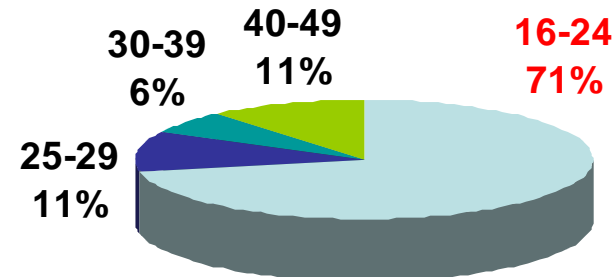
Downloader Pirate Profile

The 16-24 age group is particularly high in the category of internet piracy, representing 58 percent of illegal downloaders across the 22 directly researched countries*. It is even higher in the US, where the same age range represents 71 percent of downloaders.

Age Groups of Active Downloaders - Worldwide



Age Groups of Active Downloaders - U.S.



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* See page 13 for explanation of directly researched countries.

Methodology

- LEK is an international strategy consulting firm.
- The study was conducted over 18 months. LEK surveyed 20,600 movie consumers in 22 countries using focus groups and telephone, internet and in-person interviews.
- Those surveyed were movie watchers. Those who have dropped out of the market for movies were not included in the study.
- Data from the 22 directly research countries was extrapolated to 42 additional countries using a regression model developed in conjunction with UCLA and based on country-specific characteristics to complete the worldwide piracy picture.
- The study's piracy loss calculation is based on the number of legitimate movies - movie tickets, legitimate DVDs - consumers would have purchased if pirated versions were not available.



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Methodology – 22 Directly Surveyed Countries

- Australia
- Brazil
- Canada
- China
- France
- Germany
- Hong Kong
- Hungary
- India
- Italy
- Japan
- Korea
- Mexico
- Netherlands
- Poland
- Russia
- Spain
- Sweden
- Taiwan
- Thailand
- UK
- United States



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